

WATER/FLC/JPT/MXK/AJT/jlj

PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

WATER DIVISION

RESOLUTION NO. W-4618

October 5, 2006

R E S O L U T I O N

**(RES. W-4618), TRINITY VILLAGE WATER COMPANY. ORDER
AUTHORIZING A GENERAL RATE INCREASE, PRODUCING
ADDITIONAL ANNUAL REVENUE OF \$56,054 OR 98.06% IN TEST
YEAR 2006.**

SUMMARY

By Draft Advice Letter filed on June 6, 2004, Trinity Village Water Company (Trinity) seeks an increase in rates for water service. The Water Division (Division) accepted the draft advice letter as complete for filing on June 10, 2004.

For Test Year 2006, this resolution grants an increase in gross annual revenues of \$56,054, or 98.06%.

BACKGROUND

By Draft Advice Letter, Trinity, a Class D water utility, requests authority under Section VI of General Order 96-A and Section 454 of the Public Utilities Code to increase water revenue for Trinity by \$97,227 or 170% for a return of 13.50% on rate base for Test Year (TY) 2006. The purpose of the rate increase is to recover increased operating expenses and to provide an adequate return.

Additionally, Trinity requests Facilities Fees applicable to all customers applying for services from the utility in the territory served for premises not previously connected to its distribution mains, for additional service connections to existing premises, and for increases in size of service connections to existing premises.

As of June, 2005, Trinity had 186 metered-rate customers. Trinity is located in Salyer, California, the area known as Trinity Village Subdivision, and vicinity, located approximately 11 miles southeast of Willow Creek, Trinity County.

Trinity is owned and operated by Frances B. Mathews and Danny Walsh, both sons of the original founders. Trinity is a community water system located in Hawkins Bar,

Trinity County, approximately ten miles southeast of the community of Willow Creek. Trinity originally applied for a permit to serve 200 service connections with chlorinated water diverted from Hawkins Creek in March 1964. On March 30, 1967, a permit was issued by Trinity County for the provision of water to 60 lots. The number of service connections was limited to 60 at the time based on the limited treatment facilities. Trinity currently operates under Permit No. 01-01-94(P)219 which was issued by the Department of Health Services (DHS) on January 14, 1994. This permit contained no restrictions on the number of service connections.

Trinity is supplied with treated surface water from the Hawkins Creek Treatment Plant throughout the year and chlorinated, unfiltered water from the Trinity River during the summer months.

The Hawkins Creek treatment plant is considered equivalent to direct filtration. Water from the treatment plant filters is injected with a sodium hypochlorite solution prior to entering a 120,000-gallon capacity concrete storage tank located across the street from the treatment plant. Water flows under gravity from the storage tank to the lower pressure zone and is supplied to a small number of connections in the upper pressure zone by a 7.5 hp booster pump. During DHS' inspection conducted on August 9, 2005, it was noted that during peak usage, Trinity exceeded the maximum permitted flow rate at the Hawkins Creek Treatment Plant.

To augment water supply during the summer months, water is also diverted from the Trinity River and injected with a sodium hypochlorite solution approximately 200 feet from the first service connection. The 200-foot pipe from the first service connection currently does not provide adequate chlorine contact time to comply with DHS' Surface Water Treatment Rule. At this time, Trinity does not filter the water diverted from the Trinity River. In past inspections, DHS has noted that Trinity is not in compliance with the Surface Water Treatment Rule, due to the use of the unfiltered surface water. In order to protect public health and until such time that the requirements of the Surface Water Treatment Rule are being met, DHS has directed Trinity to issue a boil water advisory to its customers prior to placing the Trinity River Source into service. In order to alleviate the problem, Trinity will build a new treatment plant estimated to go into operation within one year.

All of the service connections in Trinity's service territory are residential. Trinity anticipates little to no growth in the near future since nearly all parcels in the service area are built-out. Income levels in Trinity's service area are moderate, and a large portion of the population is seasonal. Trinity currently provides one rate schedule - Schedule No. 1A, Annual General Metered Service.

This is Trinity's first general rate case. Trinity's present rates became effective on May 26, 2005 by Res. No.W-4537, which authorized an interim rate increase producing an increase in gross annual revenues of \$4,500 or 7.9%.

NOTICE, PROTESTS, AND PUBLIC MEETING

A notice of the proposed general rate increase was mailed to each customer on June 6, 2005. The Division received several letters and comments from both customers and the Trinity Village Steering Committee (Committee), a coalition of homeowners in Trinity's service territory, pertaining to the rate increase, plant improvements, and acquiring the utility.

The most significant comment was received by the Division on May 22, 2006 from the Committee. The Committee expressed the need for necessary system upgrades and improvements to achieve the goals of safe drinking water at a fair price. In addition, the Committee is supportive of Trinity Village Water Company investing in the necessary facilities to comply with state standards and is interested to be notified about the rate increase progress.

In its letter, the Committee states the following:

"We, the Trinity Village Water Steering Committee, wish to advise the P.U.C. that our attempt to purchase the Trinity Village Water Company on January 8, 2006, was rejected on March 30, 2006. We are aware that there is a request on file for a water rate increase needed to pay for necessary water system upgrades.

Our number one concern is good, safe drinking water at a fair price.

We are hopeful that the current owners of Trinity Village Water Company will make the necessary investment to bring our system up to state standards.

The Committee, as well as the homeowners in general, are aware that this is an old water system in great need of improvements and understand the importance for the rate increase.

On Monday August 8, 2005 at 7:00 pm, a public meeting was held in the utility's service area. The Division representative explained Commission rate-setting procedures and Trinity's representative explained the reasons for the proposed increase. Twenty six people, all customers, attended the meeting. The customers made statements, asked questions, or made miscellaneous comments related to utility operations.

The Division representative assured customers that the Commission would take into account all of the customers concerns when authorizing the final rates in the matter.

DISCUSSION

The Division performed an independent analysis of Trinity's summary of earnings. Appendix A shows Trinity's and the Division's estimates of the summary of earnings at present and requested rates for Test Year 2006. The final column shows expenses and revenues at the rates recommended by the Division.

In Decision (D.) 92-03-093, effective April 30, 1992, the Commission adopted the operating ratio method of ratemaking as an alternative to the rate of return method on rate base for Class C and D utilities. Ordering paragraph of D.92-03-093 states:

Division is directed to calculate rates using both return-on-rate base and operating ratio methods of ratemaking for Class C and Class D water companies requesting new rates and to recommend to the Commission the rate method that produces the higher results.

Water Division's Audit and Compliance Division's memorandum dated February 27, 2006, recommends an operating margin of 25% as reasonable for Class D water utilities (fewer than 500 customers). Using the operating ratio method with a return on margin of 25%, Trinity's revenue requirement is \$113,216.

For the return-on-rate base method, the February 27, 2006 memorandum also recommends a 12.75% to 13.75% rate of return for Class D water utilities. Division has wide latitude in choosing an appropriate rate of return within this range and, for a utility with no serious violations of Commission rules and orders and with no notable service-related issues, Division recommends the midpoint of the range. Using this rate of return, Division calculates a revenue requirement of \$91,890. Division, therefore, selected the Rate of Margin method in this GRC since it produces the higher revenue requirements.

Trinity's current rate structure consists of one schedule: Schedule No. 1A, General Metered Service.

At the Division's recommended rates shown in Appendix B, the bi-monthly bill for an average metered rate customer consuming 1,100 cubic feet per 60-day period with a 5/8 x 3/4-inch meter will increase from \$33.47 to \$83.04 or 148.1%. A comparison of customer bills at present and recommended rates is shown in Appendix C. The adopted quantities and tax calculations are shown in Appendix D.

Plant Additions

Based on the system description and condition of the current water system, Trinity proposes to build the River Water Treatment Plant at an estimated cost of \$265,400. This estimate is based upon an analysis by Mr. Jim Murray of Whitson, Inc., the contractor which will build the treatment facilities.

The new river water treatment plant facility will meet both current and pending State Water Treatment Requirements based on a 3 gallons per minute (GPM) per square foot of media, 113 gallons per minute, or 162,720 gallons per day. The treatment plant will include the following:

- 1) Contact tank for polymer both vertically welded and epoxy coated;
- 2) Three 48-inch multi-media filters at 100 psi;
- 3) Nine pneumatic double acting filter valves for backwash operation;
- 4) Filter panel with programmable logic controller, solenoid valves and lights;
- 5) Two chemical feed systems with peristaltic pump and solution tank;
- 6) Instrumentation to include flow meters, a turbidity meter, a chlorine analyzer, and chart recorders;
- 7) A 29-ft diameter by 8-ft side wall, factory-coated bolted steel tank, 41,796 gallons for chlorine contact;
- 8) A 12-ft by 32-ft wood-sided building to house equipment with room for expansion of two additional filters should they be required in the future;
- 9) Concrete foundation for building with a graded pad base for the tank;
- 10) Backwash pond;
- 11) Submersible pump to comply with new head requirements; and
- 12) Centrifugal pump with variable speed drive.

Staff has reviewed the estimates and finds the cost estimates reasonable.

Rate Base Offset Advice Letter

Trinity should file a rate base offset advice letter to recover up to, but not exceeding, \$265,400 into rate base for the new treatment plant facility. In addition, to the above, Trinity estimates an additional cost of \$7,000 to \$9,000 for additional design drawings to comply with the DHS' review. Any such cost recovery should be reviewed and scrutinized for reasonableness.

In addition to the plant investments, there may be additional operations and maintenance expenses, payroll, and purchased power expenses associated with the new plant. Trinity may include these, and other additional expenses that may be incurred after the new plant goes into operation, in the rate base offset advice letter filing.

Main Replacement Program

Trinity has indicated that their distribution system is aging and has approximately 20 miles of distribution mains that are in need of replacement.

Trinity should conduct a main replacement program to replace its aging distribution system and submit a plan to the Water Division. This plan should be submitted before, or concurrently, with Trinity's next General Rate Case filing.

This plan should target main replacement using the following priorities:

- Leakage
- Pipe material
- Age and condition
- Flow requirements

This plan should also include cost estimates, the length and size of pipe to be replaced per year, how the utility intends to finance the replacements, and the overall impact on rates.

Facilities Fees

Trinity requested facilities fees for new service connections in order to fund plant improvements. In accordance with D.01-10-025, Division recommends the implementation of Schedule F, Facilities Fees, to fund new facilities of existing plant in the future with a \$3,500 facilities fee for a new 5/8 x 3/4-inch service connection and \$5,250 for 3/4-inch service connection. The new tariff Schedule F is shown in Appendix B. Division recommends funds collected should be placed in interest-bearing accounts and be used only to build or replace plant. As funds are used, the expenditures are required to be recorded as contributed plant.

Conservation

The Commission, through its Water Action Plan, encourages conservation and metering of all Trinity's services under certain economic conditions. Trinity's quantity rates are divided into two tiers to promote conservation among higher use customers.

COMPLIANCE

Annual Report Filings

Trinity files its Annual Reports regularly. However, the annual reports in the past have left the following items on page 4 of 13 blank:

- Average Plant
- Average Depreciation Reserve
- Net Plant
 - Less: Advances
 - Less: Contributions
 - Plus: Construction Work in Progress
 - Plus: Working Case
 - Plus: Materials & Supplies
- **Rate Base**
- **ROR=Net Revenue / Rate Base**

Beginning with the 2006 Annual Report, Trinity should complete the sections above and all relevant sections to comply with requirements for annual report filing.

Trinity responds quickly to customer complaints and has a program of preventive maintenance. Trinity has no outstanding Commission orders.

Tariff Updates

Trinity needs to update the following tariff schedules in its tariff book: Preliminary Statement, to include the Water Quality Memorandum Account (WQMA) and the User Fee Memorandum Account (UFMA); Rules Nos. 3, Application for Service; 5, Special Information Required on Forms; 7, Deposits; 10, Disputed Bills; and Forms Nos. 2, Customer's Deposit Receipt; and 3, Bill for Service.

In addition, Trinity's managers should have a copy of the most updated tariff book readily available to them for managerial purposes as well as keeping a copy available for inspection by its customers.

COMMENTS

This is an uncontested matter in which the resolution grants the relief requested. Accordingly, pursuant to Public Utilities Code 311(g) (2), the otherwise applicable 30-day period for public review and comment is being waived.

FINDINGS

1. The Division's recommended summary of earnings (Appendix A) is reasonable and should be adopted.
2. The rates recommended by the Division (Appendix B) are reasonable and should be adopted.
3. The quantities (Appendix D) used to develop the Division's recommendations are reasonable and should be adopted.
4. The proposed estimates for plant additions are reasonable. Trinity should file an advice letter to recover up to, but not exceeding, \$265,400 into rate base for the new treatment plant facilities.
5. Upon completion of the River Water Treatment Plant, Trinity should file a rate base offset advice letter to recover the costs stated above. In addition to the plant investments, Trinity may be allowed to recover additional operation and maintenance expenses, payroll, and purchased power expenses associated with the new treatment facilities to be included in the advice letter.
6. Additional costs of \$7,000 to \$9,000 associated with the River Water Treatment Plant design to comply with the Department of Health Services' requirements may be recovered upon reasonableness review.
7. Trinity should conduct a main replacement program to replace its aging distribution system and submit a plan to the Water Division. This plan should be submitted before, or concurrently, with Trinity's next General Rate Case filing.
8. The Facilities Fees of \$3,500 and \$5,250 for 5/8" x 3/4-inch and 3/4-inch meters, respectively, are reasonable and should be adopted.

9. Beginning with the 2006 Annual Report Filings, Trinity shall complete the following sections to comply with the requirements for annual report filings:
 - Average Plant
 - Average Depreciation Reserve
 - Net Plant
 - Less: Advances
 - Less: Contributions
 - Plus: Construction Work in Progress
 - Plus: Working Case
 - Plus: Materials & Supplies
 - **Rate Base**

$ROR = \text{Net Revenue} / \text{Rate Base}$
- 7) Trinity needs to update the following tariff schedules in its tariff book: Preliminary Statement, to include the Water Quality Memorandum Account (WQMA) and the User Fee Memorandum Account (UFMA); Rules Nos. 3, Application for Service; 5, Special Information Required on Forms; 7, Deposits; 10, Disputed Bills; and Forms Nos. 2, Customer's Deposit Receipt; and 3, Bill for Service.
- 8) The rate increase authorized herein is justified and the resulting rates are just and reasonable.

THEREFORE IT IS ORDERED THAT:

1. Authority is granted under Public Utilities Code, Section 454, for Trinity Village Water Company, Inc. to file an advice letter incorporating the Summary of Earnings and revised rate schedules attached to this resolution as Appendices A and B, respectively, and concurrently to cancel its presently effective rate Schedule No. 1A, General Metered Service. The effective date of the revised schedules shall be five days after the date of filing.
2. Trinity Village Water Company is authorized to increase annual revenues by \$56,064 or 98.06%, for a rate of margin of 25%. This results in Test Year 2006 revenue of \$113,216.
3. Trinity Village Water Company shall conduct a main replacement program to replace its aging distribution system and submit a plan to the Water Division. This plan should be submitted before, or concurrently, with Trinity's next General Rate Case filing.

4. Trinity Village Water Company shall file a rate base offset advice letter in accordance with the guidelines discussed herein upon completion of the River Water Treatment Plant. Trinity Village Water Company should file the advice letter to recover the costs stated above. In addition to the plant investments, Trinity Village Water Company may be allowed to recover additional operation and maintenance expenses, payroll, and purchased power expenses associated with the new treatment facilities to be included in the advice letter.
5. Trinity Village Water Company may recover additional costs of \$7,000 to \$9,000 associated with the River Water Treatment Plant design to comply with the Department of Health Services requirements.
6. Trinity Village Water Company shall complete all sections of its annual report filings discussed herein beginning with the 2006 filing.
- 7) Trinity needs to update the following tariff schedules in its tariff book: Preliminary Statement, to include the Water Quality Memorandum Account (WQMA) and the User Fee Memorandum Account (UFMA); Rules Nos. 3, Application for Service; 5, Special Information Required on Forms; 7, Deposits; 10, Disputed Bills; and Forms Nos. 2, Customer's Deposit Receipt; and 3, Bill for Service.
- 8) This resolution is effective today.

I certify that the foregoing resolution was duly introduced, passed, and adopted at a conference of the Public Utilities Commission of the State of California held on October 5, 2006; the following Commissioners voting favorably thereon:

STEVE LARSON
Executive Director

Appendix A					
Trinity Village Water Company					
Summary of Earnings					
Test Year 2006					
	Utility Estimated		Branch Estimated		
Category	Present Rates	Requested Rates	Present Rates	Requested Rates	Recommended Rates
Operating Revenues:					
Flat Rate	0	0	0	0	0
Metered	57,162	154,389	57,162	113,216	113,216
Private Fire Protection	0	0	0	0	0
Total	57,162	154,389	57,162	113,216	113,216
Operating Expenses					
Purchased Water	0	0	0	0	0
Purchased Power	7,061	7,500	7,061	5,245	5,245
Purchased Chemicals	2,461	2,600	2,461	2,857	2,857
Other Volume Related Expenses	0	0	0	0	0
Employee Labor	0	0	0	0	0
Materials	1,174	1,600	1,174	1,354	1,354
Contract Work	33,600	36,000	33,600	37,182	37,182
Water Testing	475	550	475	571	571
Transportation Expense	279	400	279	473	473
Other Plant Maintenace Expense	1,767	2,000	1,767	3,901	3,901
Office Salaries	0	0	0	0	0
Management Salaries	0	12,000	0	16,640	16,640
Employee Pension and Benefits	0	0	0	0	0
Uncollectibles	0	0	0	0	0
Office Service & Rentals	0	0	0	0	0
Office Supplies & Expenses	1,483	1,600	1,483	2,121	2,121
Professional Services	4,710	30,000	4,710	5,067	5,067
Insurance	0	5,000	0	8,204	8,204
Regulatory Commission Exp.	1,669	1,800	1,669	191	191
General Expenses	0	0	0	0	0
minus expenses capitalized					
Total Operating Expenses	54,679	101,050	54,679	83,806	83,806
Total Deductions					
Depreciation Expense	3,376	4,000	3,376	1,518	1,518
Property Taxes	0	0	0	0	0
Payroll Taxes	0	0	0	0	0
Taxes other than Income	363	363	363	363	363
States Income Tax	0	0	0	2,434	2,434
Federal Income Tax	11,040	11,040	11,040	3,764	3,764
Total Deductions	14,779	15,403	14,779	8,079	8,079
Total Deductions and Expenses	69,458	116,453	69,458	91,885	91,885
Net Revenue	-12,296	37,936	-12,296	21,331	21,331
Rate Base:					
Average Plant	not available	not available	not available	not available	not available
Average Depr. Res.	not available	not available	not available	not available	not available
Net Plant	not available	not available	not available	not available	not available
Less: Advances/Contributions	0	0	0	0	0
Add: Supplies/working Cash	0	0	0	0	0
Rate Base	not available	281,011	not available	not available	not available
Rate of Margin / Rate of Return	N/A	13.50%	N/A	25.00%	25.00%

APPENDIX B

Schedule No. 1A
GENERAL METERED SERVICE

APPLICABILITY

Applicable to all metered water service furnished on a bi-monthly basis. (T)

TERRITORY

The area known as Trinity Village Subdivision, and vicinity, located approximately 11 miles southeast of Willow Creek, Trinity County.

RATES

Quantity Rates:

First 1100 cubic feet per 100 cubic feet	\$0.70	(I)
Over 1100 cubic feet per 100 cubic feet	\$1.94	(I)

Service Charge:	Per Meter <u>Bi-Monthly</u>	(C)
For 5/8 x 3/4-inch meter	\$ 75.34	(I)
For 3/4-inch meter	\$113.01	(I)
For 1-inch meter	\$188.35	(I)

The Service Charge is a readiness-to-serve charge, which is applicable to all metered service and to which is added the charge for water used, computed at the Quantity Rate.

SPECIAL CONDITIONS

1. The established billing cycle for General Metered Service is every two months. (D)
(C)
2. All bills are subject to the reimbursement fee set forth on Schedule No. UF. (D)

APPENDIX B

Schedule F

FACILITIES FEES

APPLICABILITY

Applicable to all customers applying for services from the Utility in the territory served for premises not previously connected to its distribution mains, for additional service connections to existing premises, and for increases in size of service connections to existing premises.

TERRITORY

The area known as Trinity Village Subdivision, and vicinity, located approximately 11 miles southeast of Willow Creek, Trinity County.

RATES

Initial Fee for each Service Connection:

For	5/8 x 3/4-inch meter	\$ 3,500.00
For	3/4-inch meter	\$ 5,250.00
For	1-inch meter	\$ 5,250.00
For	1-1/2-inch meter	\$10,000.00
For	2-inch meter	\$16,000.00

SPECIAL CONDITIONS

- 1 Facilities Fees are payable in addition to and do not limit any charges for extensions of mains that may be applicable under Rule 15, Main Extensions.
- 2 These fees **are not** subject to the Public Utility Commission Reimbursement Fee surcharge in Schedule UF.
- 3 Facilities Fees authorized herein shall be deposited within five days of receipt in a separate bank account paying interest. A direct confirmation from the bank shall be mailed to the Director of the Water Division after making such deposit to verify the amount deposited.
- 4 Facilities Fees shall be treated as Contributions-in-Aid-of-Construction and follow the requirements as specified in the Internal Revenue Code Section 118 to qualify as such.
- 5 Facilities Fees shall be accounted for as Contributions-in-Aid-of-Construction in accordance with the Commission's prescribed Uniform System of Accounts. In addition to the balances collected, including interest, shall be reported in the utility's annual report.
- 6 The plant constructed with facilities fees shall be removed from rate base for rate-making purposes.

APPENDIX C

TRINITY VILLAGE WATER COMPANY

COMPARISON OF RATES

Test Year 2006

Service Charges:	Per Service Connection Billed Bi-Monthly		
	<u>Present Rates *</u>	<u>Recommended Rates</u>	<u>Percent Increase</u>
For 5/8 x 3/4- inch meter	\$28.63	\$75.34	163%

Quantity Charges:

All water delivered per 100 cu. ft. (for first 1100 cu. ft.)	\$0.44	\$0.70	59%
All water delivered per 100 cu. ft. (above 1100 cu. ft.)	\$1.22	\$1.94	59%

Comparison of average monthly customer bill at present and authorized rates for a 5/8 x 3/4-inch meter service using various quantities of water.

<u>Usage 100 cu. ft.</u>	<u>Present Rates *</u>	<u>Recommended Rates</u>	<u>Amount Increase</u>	<u>Percent Increase</u>
0	\$28.63	\$ 75.34	\$46.71	163.15%
5	\$30.83	\$ 78.84	\$48.01	155.72%
11	\$33.47	\$ 83.04	\$49.57	148.10%
15	\$38.35	\$ 90.79	\$52.45	136.75%
20	\$44.45	\$100.49	\$56.04	126.08%
30	\$56.65	\$119.88	\$63.23	111.62%

- * The present rates are those that were established on May 26, 2005 by Res. No. W-4537, which authorized an interim rate increase of 7.9%.

APPENDIX D
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TRINITY VILLAGE WATER COMPANY

ADOPTED QUANTITIES
Test Year 2006

Expenses:

1. Purchased power (Electric)	
Vendor	Pacific Gas & Electric Company
Schedules	Schedule A-1 Small General Service
Effective Date	January 1, 2005
2. Composite Rate	\$0.1760
Total Power Consumption in kWh	29,803
Total Purchased Power (\$)	\$5,245
3. Number of Service Connections:	
Metered Rate	
5/8 x 3/4-inch service	185
1-inch service	1
4. Water Sales (Ccf) – Metered Customers:	22,804

APPENDIX D
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TRINTIY VILLAGE WATER COMPANY

TAX CALCULATIONS
Test Year 2006

Line No.	Item	State Tax	Federal Tax
1.	Operating Revenue	\$113,216	\$113,216
2.	O&M Expenses	\$ 83,806	\$ 83,806
3.	Taxes Other than Income	\$ 363	\$ 363
4.	Depreciation	\$ 1,518	\$ 1,518
5.	Taxable Income for State Tax	\$ 27,530	
6.	State Tax	\$ 2,434	
7.	Taxable Federal Income Tax		\$ 25,096
8.	Federal Income Tax		\$ 3,764
9.	Total Income Tax		\$ 6,198
California Corporate Franchise Rate		8.84%	
Federal Income Tax Rate:			
On first \$50,000 of taxable income			15%